Perspectives
US High Yield

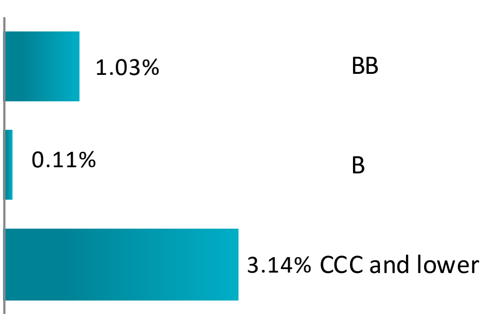
Market Update

To be sure, the month's economic data remained deeply rooted in negative territory when viewed on a year-over-year basis. Then again, some of the month-over-month changes from April to May produced some spectacular turnarounds, as the country began the process of emerging from the stay-at-home directives. In fact, it was not uncommon for the descriptive narrative accompanying the release to include the word, record. Gains were reported in employment, manufacturing, construction, and the all-important category of goods and services consumption. That said, the improvements, though welcomed, still left total economic activity well below the economy's potential and far short of year-end 2019.

The ICE B of A Merrill Lynch U.S. High Yield Index posted a positive total return of +0.98% in June, the third consecutive positive monthly return. The high yield recovery slowed in June as investors weighed the prospects of a V-shaped economic recovery with increasing Covid-19 infection rates across the county. The high yield market saw continued strong positive inflows for June of approximately +$9.7 billion. High yield new-issue activity increased dramatically during June, registering the most active month for new-issue on record. In total, 90 bonds priced totaling $61.5 billion, as compared to $47.3 billion priced in May. There were 9 high yield bond defaults in June totaling $16.25 billion (Valaris was $5.67 billion), and 4 distressed exchanges. The par-weighted default rate increased to 6.19% at the end of June, up from 4.85% last month.

During June, U.S. High Yield underperformed U.S. Equities (S&P 500 +1.99%) and U.S. Corporates (+2.02%), but outperformed U.S. Treasuries (+0.11%). Within U.S. High Yield, BB-rated credits (+1.03%) outperformed single B-rated credits (+0.11%) but underperformed triple C and lower-rated issues (+3.14%). From a sector perspective, 14 of the 18 sectors in the index posted positive monthly returns. The best performing sectors were Real Estate (+3.26%), Automotive (+2.98%), and Energy (+2.60%). On a relative basis, the worst performing sectors were Utility (-0.88%), Healthcare (-0.84%), and Leisure (-0.64%). The High Yield Index's Option Adjusted Spread was 644 basis points at the end of June, 10 basis points tighter for the month. The High Yield Index's yield-to-worst ended the month at 6.85%, which is a decrease of 8 basis points from the start of the month (6.93%). Finally, the High Yield Index's average price was $94.78 at month end, $0.85 higher than the $93.93 average price at the start of the month.

Returns by Rating[2]



High Yield Industry[2]	YTD Total Return	OAS Jun-20	YTW Jun-20
US HIGH YIELD INDEX	**-4.78**	**644**	**6.84**
Automotive	-2.78	571	6.06
Banking	0.16	375	4.25
Basic Industry	-1.92	581	6.22
Capital Goods	-6.00	728	7.64
Consumer Goods	0.45	452	5.10
Energy	-19.76	1020	10.57
Financial Services	-5.50	723	7.56
Healthcare	-1.07	585	6.25
Insurance	-2.21	684	7.24
Leisure	-11.58	737	7.71
Media	-1.91	498	5.43
Real Estate	-7.30	687	7.22
Retail	-3.83	646	6.85
Services	-6.49	651	6.85
Technology & Electronics	0.62	516	5.55
Telecommunications	-2.42	466	5.08
Transportation	-11.86	1150	11.76
Utility	-0.10	484	5.43

Sources: AXA IM, ICE BofA ML, J.P. Morgan as of June 30, 2020.
(1) ICE BofA Merrill Lynch US Corporate Index.
(2) ICE BofA Merrill Lynch US High Yield Index.

US Short Duration High Yield: Strategy Activity and Performance

Portfolio management comments

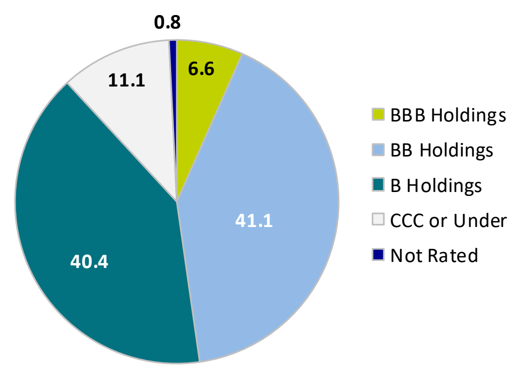
AXA IM's U.S. Short Duration High Yield strategy delivered a modestly positive return in June, capturing roughly 30% of the overall market's +0.98% return. Performance was mainly limited by the shorter duration nature of our holdings and our positioning and security selection within the energy sector. On a year-to-date basis, the portfolio continues to significantly outperform, and has captured roughly 15% of the overall market's -4.78% decline. The yield-to-worst of the portfolio (exclusive of cash) was unchanged at 5.17%, while the overall market tightened by 8 bps to 6.85%. The Option Adjusted Spread of the Fund tightened by 2 bps to 494 bps. The overall portfolio duration (using a calculation of modified duration-to-worst) increased from 1.8 to 2.0, while the market duration increased from 3.9 to 4.1.

Position count increased during June and the portfolio remains well diversified. We believe that diversification of portfolio holdings is important for the strategy and helps to manage credit risk. Our top holding, a 1.5% position, was Zayo Group, LLC. At month-end, approximately 63% of the portfolio was invested in securities in excess of three years, but which we expect to be redeemed early. This is up roughly 1% from the previous month. Market technicals were mixed during June as flows remained significantly positive, offset by record primary market volume. As volatility has continued to subside, the new issue market has been very active, with a significant amount of issuance being used to bolster liquidity as companies navigate this stressed environment, as well as refinance existing debt. Corporate fundamentals have deteriorated considerably in just a short period of time, and as a result, the high yield default rate will continue to trend higher. Although the overall impact of the coronavirus and subsequent economic recovery remain fluid, we believe the Short Duration strategy is well positioned to weather this unprecedented environment, and that periods like these ultimately present buying opportunities.

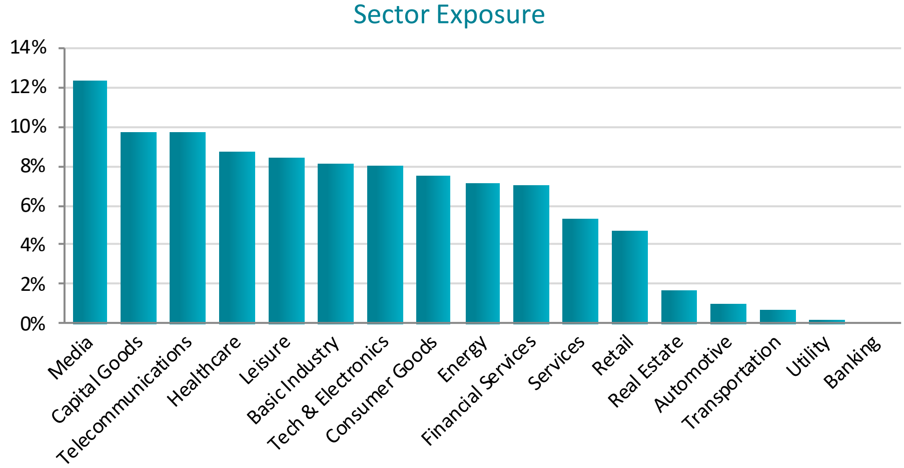
Characteristics

CHARACTERISTICS	Portfolio
Average Years to Maturity	3.4
Yield to Maturity	5.46%
Yield To Worst	5.17%
Current Yield	5.89%
Duration To Worst	2.0
Average Coupon	5.89%
Option Adjusted Spread	494
Average Price	100
Cash Position	1.9%
Number of Issuers	148
Number of Positions	224
Average ML Rating	B1

Ratings



Sector Exposure



Source: AXA IM, FactSet, as of June 30, 2020. All data exclusive of cash. The examples shown herein are intended only to illustrate the investment process and should not be considered a recommendation or solicitation to buy or sell any particular security. The representative account shown has been selected because it utilizes an investment setup that is typical for accounts in the relevant strategy and/or on the basis that it has adequate assets under management to effectuate a fair comparison. Diversification does not ensure a profit or protection against a loss.
Please refer to the appendix for additional information about representative accounts.

US Core High Yield: Strategy Activity and Performance

Portfolio management comments

AXA IM's core unconstrained US high yield strategy underperformed the broader high yield market during the month of June. An underweight in long duration securities, a portion of the market that has grown recently with the increase in downgrades from Investment Grade to High Yield, had a negative impact on relative performance. A slight overweight to shorter duration securities and a higher cash balance also had a negative impact on performance. Security selection was negative, which was mainly driven by industry positioning as discussed in more detail below. The strategy was once again very active in a busy primary market, and several new issues provided a meaningful contribution to overall return in June.

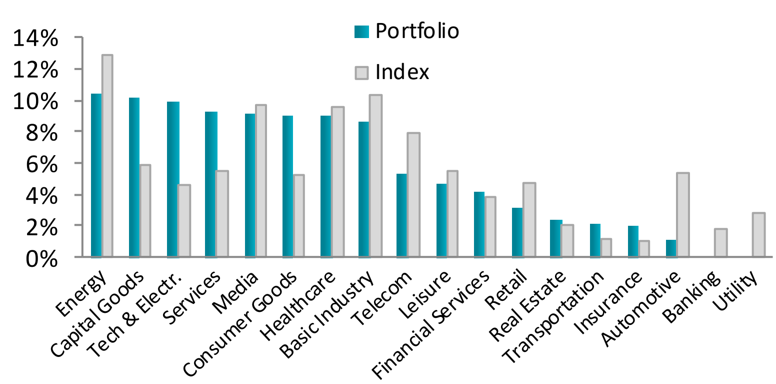
From a sector perspective, negative security selection in the Energy sector was responsible for half of the strategy's underperformance. An up-in-quality positioning within the sector hurt relative performance after providing significant outperformance through most of 2020. In addition, holdings in natural gas-focused E&P credits underperformed, after outperforming Oil-focused E&P's in the prior months. The strategy also experienced negative security selection in the Consumer Goods and Capital Goods sectors. Offsetting this was positive security selection in the Leisure sector, where an increase in Covid-19 cases led to weakness in Gaming, Cruise Lines and Amusement Park credits, many of which are not owned in the strategy. In addition, the strategy experienced positive security selection in the Healthcare sector, driven by an underweight to the underperforming Health Facilities subsector.

Our flagship strategy finished the month with a yield-to-worst of 6.59% (exclusive of cash) compared to the benchmark yield-to-worst of 6.85%. The duration-to-worst was 3.5, compared to the benchmark duration of 4.1.

Characteristics

CHARACTERISTICS	Portfolio	Index
Average Years to Maturity	**5.6**	6.4
Yield to Maturity	**6.86%**	6.98%
Yield To Worst	**6.59%**	6.85%
Current Yield	**6.65%**	6.45%
Duration To Worst	**3.5**	4.1
Average Coupon	**6.57%**	6.09%
Option Adjusted Spread	**621**	644
Average Price	**99**	95
Cash Position	**4.3%**	N/A
Number of Issuers	**203**	821
Number of Positions	**295**	1982
Average ML Rating	**B1**	B1

Sector Exposure



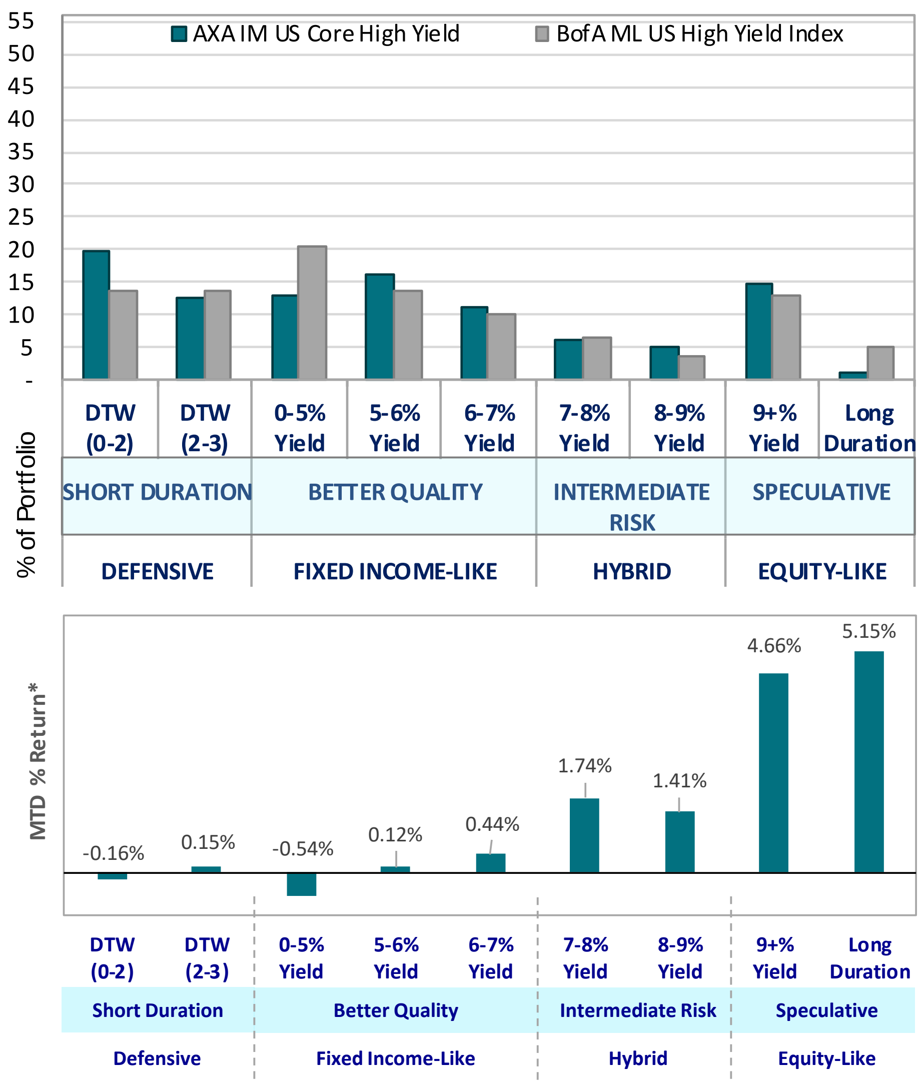
Source: AXA IM, FactSet, as of June 30, 2020. Index: ICE BofA Merrill Lynch US High Yield. All data exclusive of cash. The examples shown herein are intended only to illustrate the investment process and should not be considered a recommendation or solicitation to buy or sell any particular security. The representative account shown has been selected because it utilizes an investment setup that is typical for accounts in the relevant strategy and/or on the basis that it has adequate assets under management to effectuate a fair comparison. Please refer to the appendix for additional information about representative accounts.

US Core High Yield: Strategy Activity and Performance

Portfolio management comments

We remain highly disciplined in investing in credits that have the liquidity and financial levers to survive this unprecedent period of economic inactivity. While our view on the longevity of this economic shutdown is developing with new information every day, we are structuring our portfolios around credits that can survive even the most bearish economic outlooks.

Broad Risk Positioning



**Returns are for bucket partitions of the BofAML US High Yield Index*

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US Dynamic High Yield: Strategy Activity and Performance

Portfolio management comments

AXA IM's US Dynamic High Yield Bonds outperformed the ICE B of A Merrill Lynch US High Yield Index during the month of June. The strategy underperformed both the triple C market (+3.13%) and the equity market (S&P +1.98%, Russell 2000 +3.53%). The strategy's outperformance to the high yield index was driven by its overweight position in the highest yielding portion of the market, which outperformed, as well as its underweight position in the lowest yielding portion of the market, which underperformed. The portfolio's derivative positions also had a positive impact on performance during the month.

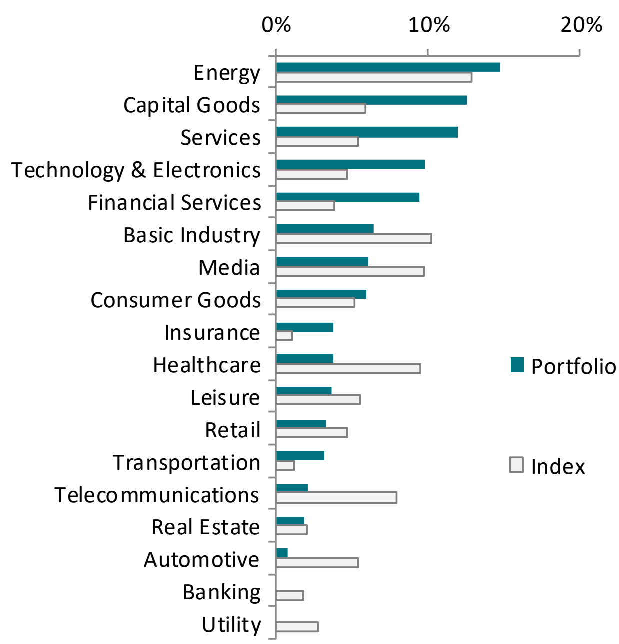
From a sector perspective, the strategy's performance was positively impacted by security selection in the Financial Services sector, where holdings in Enova International and Curo Group Holdings outperformed. Performance was also positively impacted by security selection in the Leisure sector, where holdings in Life Time Fitness and Golden Entertainment outperformed. The portfolio was negatively impacted by security selection in the Energy sector, where holdings Genesis Energy and Crestwood Midstream Partners underperformed.

The strategy finished the month with a yield-to-worst of 9.51% (exclusive of cash and derivatives) compared to the benchmark yield-to-worst of 6.85%. The duration-to-worst of the portfolio was 3.5 compared to the benchmark duration-to-worst of 4.1. The market has experienced a remarkable rebound, and the Dynamic High Yield strategy was well positioned to produce returns in June that outperformed the HY market. At a 9.51% yield-to-worst, we still see many attractively priced opportunities in the market. Regarding the cash bond portion of the portfolio, we continue to invest in higher yielding credits with strong liquidity and financial levers to survive this period of reduced economic activity. We expect to maintain our yield advantage compared to the overall high yield market. The strategy will continue to participate in the primary market to provide incremental risk-adjusted return. As of month-end, the portfolio holds 17 derivative positions related to 11 issuers. All of these derivative positions are expressing long credit views on individual issuers, and including these derivative positions, the strategy's exposure was 116% gross and 116% net.

Characteristics

CHARACTERISTICS	Portfolio	Index
Yield to Maturity	**9.70%**	6.98%
Yield To Worst	**9.51%**	6.85%
Current Yield	**8.71%**	6.46%
Duration To Worst	**3.46**	4.14
Average Coupon	**8.21%**	6.09%
Option Adjusted Spread	**919**	644
Average Price	**95**	95
Average ML Rating	**B3**	B1
Number of Issuers	**90**	821
Number of Cash Bonds	**86**	1,982
Number of CDS Positions	**17**	N/A

Sector Exposure



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Market Outlook

Macro Outlook - US View

Even with historic rebounds in many widely followed economic data releases, their importance continues to hold only a distant second to the daily COVID-19 tracking numbers, as concerns of a return to lockdowns casts doubts on the practicality and sustainability of the emerging recovery. The Federal Reserve's support for the nation's credit markets is indeed unwavering, but the political capital to move another round of fiscal stimulus seems lacking direction, at least for now. This is not to say that some compromise will not emerge in the weeks ahead, rather it questions the form it will take, and will it be complementary to already existing fiscal programs that seem to be achieving some noted level of success.

Macro Outlook - Global View

The significant declines in second quarter GDP will make the headlines in the coming weeks but market focus will be on the ongoing recovery and the threat to it from the global path of the coronavirus. High frequency indicators have shown a steady improvement in activity levels since April and some of the other official and survey data help support some forecasts of a V-shaped recovery in Q3. However, there are huge uncertainties about the medium-term. Over the coming months there will be more visibility about the size of the longer-term loss of economic output, what that means for inflation and how the policy outlook will evolve over coming quarters. The best case for the global economy is that rapid progress is made in terms of developing a vaccine and anti-virus remedies and this allows a more confident return to normality. Even then, many jobs and businesses will have been lost relative to the situation in early 2020. The partial offset will be that some sectors of the economy will driven by new ways of working and growth opportunities.

However, the downside risks are clear. If global unemployment does not fall quickly consumer demand will be weak and it will be difficult to see any cyclical improvement in fiscal balances. Similarly, corporate investment spending will remain subdued if final demand appears to remain weak. Finally, there are questions over how long the current level of monetary and fiscal policy support can remain in place. Fiscal initiatives like the European Recovery Fund and the infrastructure plans in the US and UK should be welcomed by investors focussed on medium-term growth.

Markets have priced in a lot of good news on the recovery. Returns from credit markets were very strong in Q2 and spreads have narrowed 60%-80% from their widest levels in March. The expectation is that core government bond yields will remain in narrow ranges, limiting total returns in the short-term. Credit markets benefit from potential carry and further spread narrowing, but such moves may be challenged by the macro and political uncertainties, with the US election looming, over the third quarter of the year.

Source: AXA IM as of June 30, 2020.

US High Yield Risks Overview

CREDIT RISK - If an issuer of bonds defaults on its obligations to pay income or repay capital, it may result in a decrease in portfolio value. The value of a bond (and subsequently, the portfolio) is also affected by changes in credit rating downgrades and/ or market perceptions of the risk of future default. Investment grade issuers are regarded as less likely to default than issuers of high yield bonds. High-yield, lower-rated, securities involve greater risk than higher-rated securities. Portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not.

RISK OF CAPITAL LOSS – Any investment in our high yield strategies are not guaranteed and returns can be negative. The performance of a portfolio may not be consistent with the objectives of investors and their investment may not be fully returned.

INTEREST RATE RISK - Fluctuations in interest rates will change the value of bonds, impacting the value of the investment portfolio. Often, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates.

LIQUIDITY RISK - Some investments may trade infrequently and in small volumes and the risk of low liquidity level in certain market conditions might lead to difficulties in valuing, purchasing or selling bonds.

HIGH YIELD BOND RISK - The portfolio will be exposed to a risk related to investments in high yield financial instruments. These instruments present higher default risks than those of the investment grade category. In case of default, the value of these instruments may decrease significantly, which would affect the value of the portfolio. Lower-rated securities generally tend to reflect short-term corporate and market developments to a greater extent than higher-rated securities which respond primarily to fluctuations in the general level of interest rates.

RE-INVESTMENT RISK - Reinvestment risk describes the risk that, as interest rates or market environment changes, the future coupons and principal from any bond may have to be reinvested in a less favorable rate environment. This is more likely to occur during periods of declining interest rates when issuers can issue bonds with lower levels of coupon. Re-investment risk may be greater with callable bonds.

Source: AXA IM as of June 30, 2020.

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